

Newspaper: Providence Journal

Date: October 28, 2008

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State bonds sale exceeds expectations

The strong response by so-called "retail" investors — individuals and small businesses — comes as a pleasant surprise, says General Treasurer Frank T. Caprio.

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PROVIDENCE — Individual investors and small businesses bought more than state officials expected through a special offering of state government bonds yesterday — and settled for an interest rate that was lower than projected.

Individuals and small businesses — the so-called "retail" investors — bought about \$25 million of the bonds; large institutions, mainly money market mutual funds, bought the remaining \$325 million, state General Treasurer Frank T. Caprio said.

And the bonds will yield investors about 2.2 percent, which

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is less than the 3 percent he had estimated last week. As a result, the state will save money in interest payments, he said.

Because of uncertainty in financial markets, Caprio was uncertain last week whether all of the \$350 million in bonds would be sold, and whether the state would have to pay a high rate of interest to attract buyers.

So he issued a public call for individuals and small businesses to buy at least some of the bonds to help ensure that the offering would be completed as planned.

He also arranged to broaden the offering's appeal by making the bonds available at six Bank of America branches in Rhode Island for a minimum investment of \$1,000 per bond, down from the usual minimum of \$10,000 or so, and by giving orders from retail investors priority over those from institutions.

The effort appeared to have worked; retail investors yesterday bought about \$25 million of the bonds through the bank branches and by other means, Caprio said.

(The exact number of retail buyers probably will not be known until later this week, Caprio said. The number who bought bonds through the bank branches will probably be available within the next few days, a Bank of America spokesman said.)

"The retail investor played an important role" in the bond of-

fering, Caprio said in an interview at his office at the State House yesterday. "The retail guy really stepped up for us."

The bond issue triggered a bit of a spat last week between Caprio, a Democrat, and Governor Carcieri, a Republican.

Carcieri last week played down concerns about the bond issue's fate, essentially saying that the public call for increased participation by retail investors was not strictly necessary.

At the time, he said he would be surprised if retail investors bought more than \$2 million of the bonds; Caprio said he hoped that retail investors would buy between \$10 million and \$20 million.

Yesterday, Amy Kempe, a spokeswoman for Carcieri, said, "We're very pleased with the interest rate and with the public's interest in buying the bonds."

She singled out the efforts of the state Budget Office and the Treasurer's Office for working together to complete the offering.

The offering's result is "great for the public and it's great for the state. We're pleased by the support of Rhode Island taxpayers," she said.

Caprio last week projected that the interest rate on the bonds would be somewhere around 3 percent.

If demand for the bonds had been lower, the state's agents would have had to set a higher yield to attract buyers, which would have cost the state more in interest payments, Caprio said.

The state had originally bud-

geted about \$6.8 million in interest expense for the bond offering, based on a 3-percent yield.

Because the yield will be about 2.2 percent, the offering will cost the state about \$3.47 million in interest, according to Caprio's estimates. Thus, the state will save about \$3.33 million in interest, money that can now be used for other state purposes, he said.

The bond offering was "oversubscribed," meaning that there were more buyers than there were bonds, according to a summary of yesterday's offering results prepared by Caprio's office.

The bonds — technically known as tax anticipation notes — carry an eight-month term. In general, investors who bought the bonds will receive their principal, plus interest, when the bonds mature on June 30, 2009.

For a Rhode Island investor, the interest is free from federal and Rhode Island income tax.

A number of potential investors dropped by Bank of America's Garden City branch in Cranston yesterday morning to find out more about the bond offering.

Among them was Paul Tavares, 51, of West Warwick, a medical equipment supplier. He said that details about the offering were scarce, so he visited the branch to learn more from an investment adviser affiliated with the bank.

Ralph Sinapi, a retiree from Cranston, said he was interested in investing "because I won't have to pay tax" on the interest he would earn. Still, he said he

could not commit to an investment until finding out more about the terms and conditions.

By lunchtime, the branch was experiencing more traffic, but not necessarily more buyers.

Mike Cafferty, 60, of Providence, an operating engineer, and member of Local 57 of the International Union of Operating Engineers, brought his mother, Evelyn Cafferty, 87, of Providence, to the branch.

Mrs. Cafferty said she was interested in the rate that was offered and in the possibility of earning interest that was free from federal and state income tax.

But after visiting the branch and learning that the rate would be 2.2 percent or so, Mrs. Cafferty decided against investing.

"I'm satisfied with what I've got right now," she said. She would be able to earn more from a certificate of deposit even after paying tax on the interest, Cafferty said.

Caprio said yesterday that the bond offering was for some people, not for others. "It has to be an attractive and suitable investment to the investor," he said.

Part of his effort to reach out to more retail investors last week was to help educate people about government bonds and investing, he said.

Caprio also said that he hopes to make some future state bond offerings more accessible to retail investors. "Individuals will get a chance to participate" more than they normally do, he said.